

Measuring the Economy

- Gross Domestic Product (GDP)
- GDP per Capita
- Real GDP
- Base Year
- Business Cycle
- Prosperity

Vocabulary

- Recession
- Depression
- Recovery
- Inflation
- Deflation
- Imports
- Exports

What is Gross Domestic Product (GDP)?

- **Currency value (such as U.S. dollar) of all final goods and services produced within a country in a given period**
- **Total income of a nation**
- **Measure of nation's economic well-being**
- **Measure of a nation's economic growth from one period to the next**

What is Included in GDP?

Consumption by Households

Goods:

Food

Clothing

Furniture

Entertainment

Housing and etc...



Typically largest component of GDP

Services: A service that someone performs for you

Ex:) Oil Change, Haircut, Construction, etc...

Investments/Spending by Businesses



- **Capital Resources** (Equipment, Facilities, Supplies, etc)
- **Inventory** (Increasing Inventory by producing and purchasing)
 - * Driven by Consumers

Government Expenditures

Local, State, and Federally funded Expenditures.

Examples Include:

- Schools
- Paying Employees
- Infrastructure Projects
- Supplies
- All other purchases of goods and services.



Net Exports

- The value of a country's exports to other nations, less its imports from other nations.



**Consumption
Investment
Government Spending
+ Net Exports**

Gross Domestic Product
(only final goods and services)

Inflation

A sustained increase in the general level of prices.

Inflation occurs when:

The demand for goods and services is greater than the supply.

Wages/Earnings may increase during times of inflation but costs of goods and services tend to increase at a faster rate.

Deflation

A decrease in the general level of prices. Typically occurs in times of recession or depression.

Real and Nominal GDP

When GDP is computed in the current year's prices, rising prices (inflation) can make it difficult to determine if a change in GDP from one year to the next is due to the country's production of more goods and services or to increases in the price level.

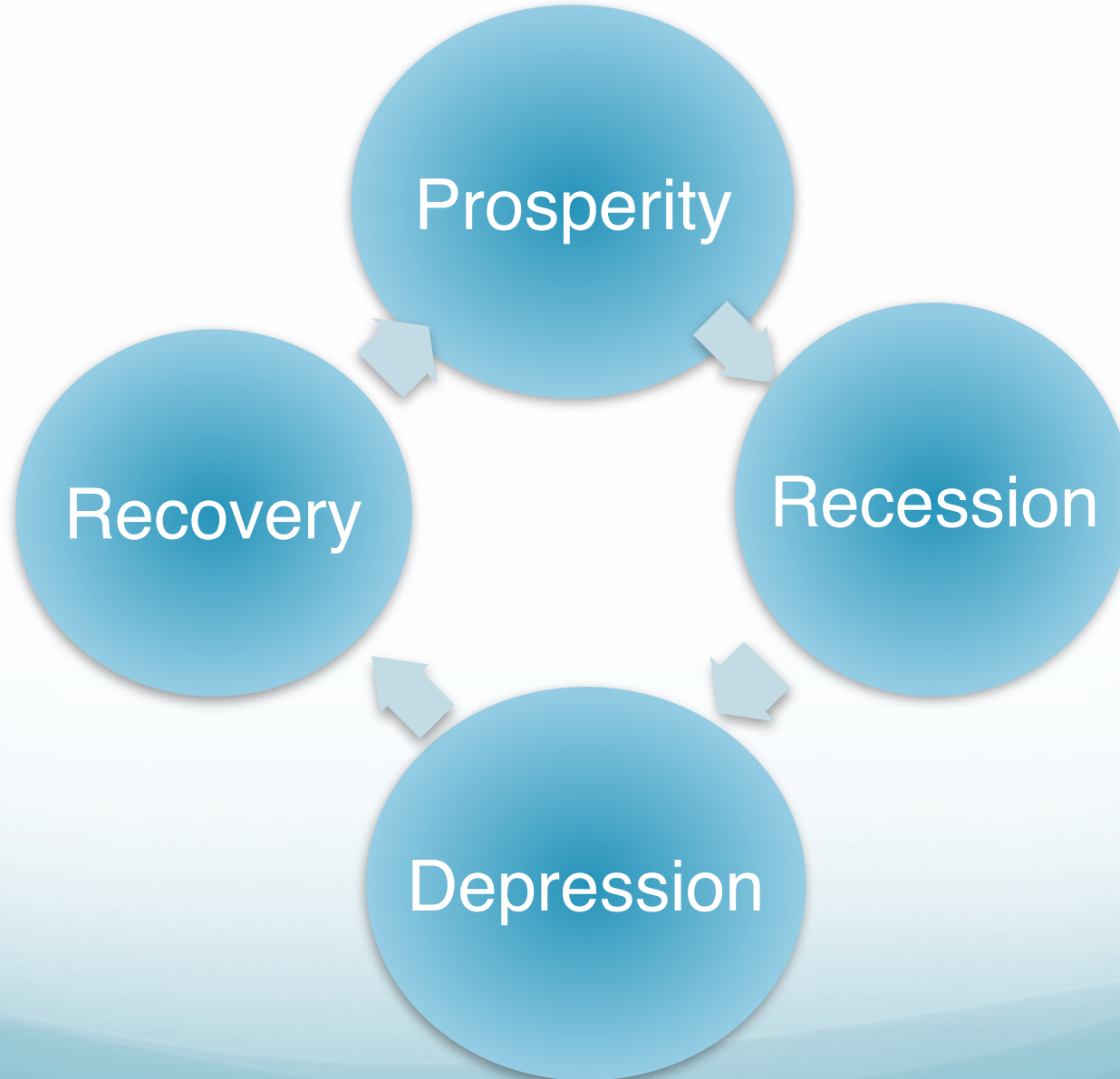
- **Nominal GDP**: GDP that is not adjusted for inflation. The value of goods and services in current prices.
- **Real GDP**: The dollar price of GDP in a **base year's price**, used to compare changes in GDP from one year to the next. An increase in real GDP is an increase in economic growth.

GDP per Capita

This measures economic growth by dividing the GDP by the total population.

$$\frac{\text{GDP}}{\text{Total Population}} = \text{GDP per Capita}$$

Business Cycle



Business Cycle Characteristics

Recovery

- Unemployment Begins to Decrease.
- Demand for Goods and Services Increases.
- GDP Increases
- Sales and Production Begin to Increase

Prosperity

- High Employment Rates
- GDP Increases at a high %
- Demand for Goods and Services Increase

Depression

- Prolonged Period of High Unemployment.
- Low sales, and business failures
- GDP falls rapidly

Recession

- Demand for Goods and Services Decrease
- GDP Growth slows
- Unemployment Rises
- Production Slows

What about Our Future?